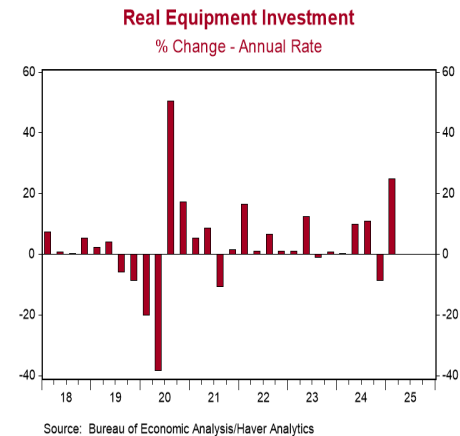
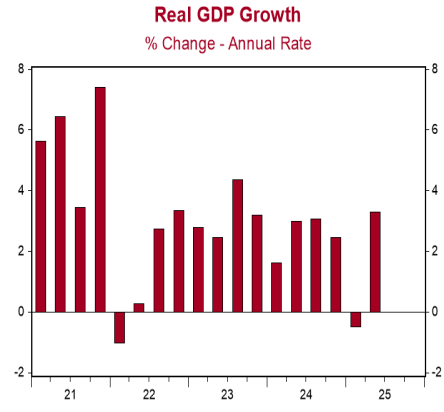


## 2<sup>nd</sup> Quarter GDP (Preliminary)

**Strider Elass** – Senior Economist  
**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist

- Real GDP growth in Q2 was revised higher to a 3.3% annual rate, beating the consensus expected 3.1%.
- Upward revisions to business investment and personal consumption, more than offset downward revisions to government spending, inventories, and net exports.
- Personal consumption, business investment, and home building, combined, rose at a 1.9% annual rate in Q2. We refer to this as “core” GDP.
- The GDP price index was unrevised from a prior estimate of 2.0%. Nominal GDP growth – real GDP plus inflation – was revised upward to a 5.3% annualized rate from a prior estimate of 5.0%.

**Implications:** Hold off on GDP for a moment. The most important data in this morning’s report was on economy-wide corporate profits, which rose 1.7% in the second quarter and grew 2.0% excluding the profits/losses of the Federal Reserve. Excluding the Fed, profits are up 3.2% from a year ago, although that is the slowest growth for any four-quarter period since 2020. Leading the gain in Q2 itself were profits from domestic non-financial industries, which rose 2.2%. Profits from the rest of the world declined 0.7%. Plugging in profits into our Capitalized Profits Model suggests stocks remain overvalued. Real GDP for the second quarter was revised higher to a 3.3% annualized rate, with a more favorable mix as upward revisions to personal consumption (mainly non-durable goods) and business investment more than offset small downward revisions to most other categories. For a clearer picture of underlying growth, we focus on “core” GDP—consumer spending, business fixed investment, and residential construction—excluding more volatile components like inventories, government outlays, and trade. Core GDP was revised upward to a 1.9% annual rate from the initial 1.2%. The revision higher was driven largely by stronger consumer spending, now estimated to have grown at a 1.6% rate, up from 1.4%. On the inflation front, the GDP price index was unrevised at a 2.0% annualized rate in Q2, with prices up 2.5% from a year ago, slightly lower than the 2.6% year-over-year increase in Q2 2024. In other news this morning, initial jobless claims fell by 5,000 last week to 229,000, while continuing claims declined 7,000 to 1.954 million. These figures are consistent with continued job growth in August, but at a slower pace than last year. In other recent news on the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic factory activity, rose to -7 in August from a reading of -20 in July. The report suggests the national ISM manufacturing index, to be reported Tuesday, will be up in August but still below 50, signaling contraction.



<b>2nd Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q2-25</b>	<b>Q1-25</b>	<b>Q4-24</b>	<b>Q3-24</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>3.3%</b>	-0.5%	2.4%	3.1%	2.1%
<b>GDP Price Index</b>	<b>2.0%</b>	3.8%	2.3%	1.9%	2.5%
<b>Nominal GDP</b>	<b>5.3%</b>	3.2%	4.8%	5.0%	4.6%
<b>PCE</b>	<b>1.6%</b>	0.5%	4.0%	3.7%	2.4%
<b>Business Investment</b>	<b>5.7%</b>	10.3%	-3.0%	4.0%	4.2%
<b>Structures</b>	<b>-8.9%</b>	-2.4%	2.9%	-5.0%	-3.4%
<b>Equipment</b>	<b>7.4%</b>	23.7%	-8.7%	10.8%	7.7%
<b>Intellectual Property</b>	<b>12.8%</b>	6.0%	-0.5%	3.1%	5.2%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q2-25</b>	<b>Q1-25</b>	<b>Q4-24</b>	<b>Q3-24</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.1</b>	0.3	2.7	2.5	1.6
<b>Business Investment</b>	<b>0.8</b>	1.4	-0.4	0.6	0.6
<b>Residential Investment</b>	<b>-0.2</b>	-0.1	0.2	-0.2	-0.1
<b>Inventories</b>	<b>-3.3</b>	2.6	-0.8	-0.2	-0.4
<b>Government</b>	<b>0.0</b>	-0.1	0.5	0.9	0.3
<b>Net Exports</b>	<b>5.0</b>	-4.6	0.3	-0.4	0.0

Source: Bureau of Economic Analysis